

Pamela J. Scott  
Assistant General Counsel

302.429.3143 – Telephone  
302.429.3801 – Facsimile

U.S. Mail  
92DC42  
PO Box 6066  
Newark, DE 19714-6066

pjscott@pepcoholdings.com

All other deliveries:  
92DC42  
500 N. Wakefield Drive  
Newark, DE 19702

March 30, 2016

**Filed Via Delafile**

Donna Nickerson  
Secretary  
Delaware Public Service Commission  
861 Silver Lake Boulevard  
Cannon Building, Suite 100  
Dover, DE 19904

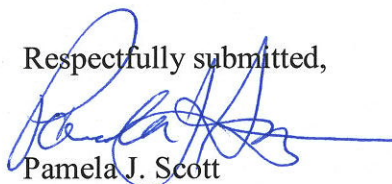
Re: Docket No. 15-1693 – Delmarva Power & Light Company's Proposal  
Pertaining to Customer Choice Options

Dear Ms. Nickerson:

Pursuant to the Amended Procedural Schedule in the above referenced docket, enclosed please find Delmarva Power & Light Company's Proposal concerning Customer Choice Options as outlined in PSC Order No. 8845.

Should you have any questions, please contact me at 302-421-3143.

Respectfully submitted,



Pamela J. Scott

Enclosure

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF DELAWARE

IN THE MATTER OF THE REVIEW OF )  
CUSTOMER CHOICE IN THE STATE ) PSC DOCKET NO. 15-1693  
OF DELAWARE )  
(FILED DECEMBER 23, 2015) )

Delmarva Power & Light Company's  
Proposals Concerning Customer Choice Options As Outlined in  
PSC Order No. 8845 and the Procedural Schedule in this Docket

Dated: March 30, 2016

## **I. INTRODUCTION**

Pursuant to Order No. 8845 in Docket No. 15-1693, dated January 19, 2016 (the "Order") the Delaware Public Service Commission ("Commission") opened this docket for the purpose of considering implementation of recommendations issued by the Electricity Affordability Committee pertaining to the enhancement of customer choice opportunities in Delaware. Pursuant to the amended procedural schedule in this docket, set forth herein are Delmarva Power & Light Company's ("Delmarva Power" or "Company") proposals regarding Items a., b., c., d., e., f., and the "Wherefore Clause" of the Order.

## **II. DELMARVA'S PROPOSALS**

### **A. A Purchase of Receivables (POR) Program Should Be Implemented**

Delmarva Power agrees that a POR Program should be implemented for choice providers in Delaware. POR programs are currently in place for Delmarva Power, Maryland, and for Delmarva Power's affiliate utilities: Atlantic City Electric Company and the Potomac Electric Power Company ("Pepco") in its service territories in both Maryland and the District of Columbia. The POR programs in Maryland, New Jersey and the District of Columbia were developed through thorough regulatory dockets in those jurisdictions. Prior to any implementation, a similar thorough regulatory review should occur in Delaware in order to develop the details of an appropriate POR program.

The potential for a POR Program in Delaware was first discussed during the Docket 49 workshops in 2012. Although significant progress was made, Delmarva Power, Staff, and the American Association of Retired Persons ("AARP") each had significant concerns with various POR provisions sought by The Retail Energy Supply Association ("RESA") (on behalf of choice suppliers) in the Docket 49 workshops. Delmarva Power provided suggestions to address its concerns as are further outline below.

In general, a POR Program is one in which the regulated delivery utility (in this case, Delmarva Power) will purchase from unregulated choice suppliers amounts owed to the choice suppliers by customers who have chosen to shop for their electricity supply. The general goal of a POR Program is to achieve efficiency in the billing and collection process by having only one entity, the regulated utility, as opposed to every retail supplier operating in Delaware, focus on the issue of recovery of delinquent accounts. The regulated utility must engage in this effort in order to collect its receivables in both delivery and standard offer service (SOS), so it can be appropriate to allow the regulated utility to be the entity to engage in collections on behalf of the choice suppliers as well. This operational efficiency should translate into cost savings for the choice suppliers so that they are able to offer better pricing to those customers who chose to shop for their energy supply.

Many of the elements of the existing Maryland POR Program are acceptable to Delmarva Power for a proposed Delaware POR Program, with a few exceptions. An appropriately designed POR Program will protect SOS customers, distribution customers and the regulated utility from ultimately paying for

bad debt associated with energy sold to choice customers by unregulated retail choice suppliers. Any appropriately designed POR Program will utilize a discount rate designed to reflect the uncollectible expenses, cash working capital and any implementation costs recognized by the regulated utility and ongoing incremental costs to include but not be limited to regulatory expenses, legal expenses and Staff consulting fees (all of which are included in the calculation of the "Discount Rate" that is applied to the balance due). The Commission would approve the Discount Rate prior to the effective date of the Program and any subsequent changes to the Discount Rate upon motion by the utility.

Delaware Power therefore recommends that on the Effective Date, Delmarva Power would purchase the receivables of each choice supplier who chooses to participate in the Program at the Discount Rate, for the contract supply balances incurred by each choice customer during the most recently billed billing cycle prior to the Effective Date, and for balances incurred for billing cycles thereafter.<sup>1</sup>

Under Delmarva Power's recommendation, following the Effective Date, Delmarva Power would purchase the current billed accounts receivable on each consolidated billed account at the appropriate Discount Rate as approved by the Commission. Delmarva Power will only be required to purchase the commodity charges; Delmarva Power is not offering to purchase receivables associated with any non-commodity service.

If Delmarva Power were to buy 100% of the choice supplier's receivables, then Delmarva Power's uncollectible costs would increase significantly. This circumstance is due to the fact that there are always a percentage of customers who do not pay their bills. Currently, with respect to the accounts of choice customers, Delmarva Power only incurs uncollectible expenses for the distribution rate portion of the bill. The distribution rate portion of the bill averages approximately 25-30% of the total bill for a typical customer. The other 70-75% of the bill is attributable to the electric supply provided by SOS or choice suppliers. Currently, if a choice customer does not pay his or her bill, Delmarva Power incurs the 25-30% uncollectible for the distribution rate and the choice supplier incurs the 70-75% uncollectible reflecting the supply rate. Under the proposed POR Program, however, Delmarva Power would be purchasing the receivables of the choice suppliers; therefore, it is necessary to establish an appropriate Discount Rate to reflect the receivables that do not get paid (aka, bad debt) and the fact that there are certain other costs associated with collecting bad debts.

Certain factors should be included in establishing the Discount Rate. Delmarva Power recommends that the initial Discount Rate for residential service customers (under a particular rate schedule) and electric non-residential customers (under a particular rate schedule) be determined by adding: (a) the Uncollectible Expense component; (b) the Program Development Cost and Ongoing Operational Cost Component; and (c) the Risk Component. The Uncollectible Expense Component

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<sup>1</sup> Example (using, for illustrative purposes only, an Effective Date of October 15, 2015): Customer A is billed on a billing cycle that runs from the 13<sup>th</sup> of each month through the 12<sup>th</sup> of the following month. During the September 13 – October 12, 2015 billing cycle, Customer A incurs a supply charge owed to Supplier A in the amount of \$100. On the October 15, 2015 Effective Date, that \$100 has not yet been paid by Customer A. On October 15, 2015, Delmarva Power purchases Customer A's \$100 balance from Supplier A at the discount rate approved by the Commission. Delmarva Power continues to purchase balances owed to Supplier A (and all registered Delaware choice suppliers) from the Effective Date forward.

percent will be calculated by dividing the estimated supplier uncollectible expenses associated with each rate schedule by the electricity revenues billed for all electricity suppliers for that rate schedule. For the initial calculation, Delmarva Power will use the SOS uncollectible expenses and revenues for each rate class. The Program Development Costs and Ongoing Operational Cost will include the incremental costs to develop the programming necessary for the Company's billing system to bill customers for the purchased receivables and any ongoing Operational Costs, including but not limited to legal costs, regulatory costs and Staff consulting fees. The Risk Component should be set at zero initially, because the Risk Component is a placeholder to protect customers in the event of lack of participation in the POR Program<sup>2</sup>. In addition, one year after implementation, the calculation of the Discount Rate should be derived by updating the initial Discount Rate calculated above and adding a Reconciliation Component to settle the imbalance.

Under a POR Program where late fees are paid to the choice supplier, they would be paid by choice customers to reduce the Discount Rate and would (a) result in higher payments to the choice suppliers (*due to the reduction of the uncollectible component by the late payment revenue*) and (b) result in higher distribution rates to all distribution customers. Higher distribution rates would occur because currently, late payment fees are used to offset collection costs in base rates.<sup>3</sup>

Delmarva Power's position is that late fees should not be used to reduce the Discount Rate of the POR Program. If late fees are used to reduce the POR Program Discount Rate, then late fees paid by choice customers will, in effect, be paid to choice suppliers. Delmarva Power objects to this for the following reasons:

- a. Delmarva Power would be purchasing the receivables from the choice suppliers; therefore, choice suppliers will never experience being paid late. Allowing late payment fees by choice customers to be credited to the choice suppliers who are not incurring any late payments or collection effort costs would constitute an unjustified windfall for suppliers. In other words, suppliers are not obligated to pass along to customers the reductions contained in the Discount Rate. For the reason set forth immediately below, this windfall to choice suppliers would come at the expense of all of Delmarva Power's customers.
- b. Currently, late payment fees collected by Delmarva Power from delinquent customers are applied to lower the collection costs in distribution base rates. Therefore, all customers benefit from lower distribution rates as a result of late payment fees. If those payments are instead credited to choice suppliers through a reduced POR Discount Rate, then all distribution customers will lose this benefit and

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<sup>2</sup> Some examples are: (1) suppliers decide not to continue marketing in Delaware and, therefore, there are not sufficient suppliers in a subsequent period from which to collect the deficiency through a higher discount rate; (2) choice customers could switch back to SOS service (for numerous potential reasons), leaving insufficient choice customer receivables from which to true up a prior period deficiency through a modified discount rate; (3) a choice supplier with a large amount of customers could go bankrupt, voluntarily leave Delaware, lose its license in Delaware, etc., therefore leaving other choice suppliers to cover that former supplier's deficiencies through a higher Discount Rate in a subsequent period; or (4) a choice supplier could, either intentionally, negligently or otherwise, operate in such a manner that the uncollectible percentage associated with its customers is unreasonably higher than the average of the other suppliers, thus resulting in a scenario where the under collection caused by the one supplier must be unfairly covered by other choice suppliers and/or customers.

<sup>3</sup> If late payment fees are to be used in the future to lower the Discount Rate, then distribution rates to all customers will increase by the amount of the late payment fees that will no longer be used as an offset to distribution rates.

distribution rates will increase the revenue requirement by the amount of this revenue that would now be given to choice suppliers.

- c. In the event that late payment fees supersede uncollectible and incremental costs, there will be a liability on Delmarva Power's balance sheet and the Commission would need to determine how to account for a potential imbalance.

The ultimate goal of an appropriate Discount Rate is to reasonably estimate the percentage of receivables that will be collected by Delmarva Power. As part of the annual true up mechanism to set the Discount Rate, a Reconciliation Component is calculated on the imbalance separately for residential and non- residential customers. Delmarva Power will record an imbalance as a regulatory asset or liability which represents the difference between cumulative costs eligible for recovery and discount amounts for purchased receivables. Only when the imbalance represents an undercollection for the Company will Delmarva Power earn interest at the Company's most recent deposit rate, adjusted for taxes. The Reconciliation Component rate is calculated by dividing the imbalance including interest earned (separately for residential and non- residential customers), by estimated electricity revenues billed for all electricity suppliers for those rate schedules.

Any costs associated with the implementation of a POR Program would be recovered through the Discount Rate in order to keep such costs out of base rates and to ensure that such costs are only charged to those customers who are participating through use of a choice supplier for their electric supply.

#### **B. Additional Space for Third Party Suppliers on Utility Bills**

With the implementation of the new Solution One Customer Billing System in January 2015, Third Party Suppliers were given additional space for messaging on Delmarva's bills but so far have not elected to use such space. Choice suppliers are provided with 25 line items for charges to their supply customers and an additional 320 characters for messages. Delmarva Power proposes to continue to make this space available on its bills. If the suppliers determine that they need more space, Delmarva Power is willing to revisit this issue.

#### **C. Modify Delmarva Power's Practice of Requiring Customers to Take Standard Offer Service for at Least A Month before Selecting Another Supplier**

Delmarva Power is opposed to any change to this practice. The Company's current structure within the Solution One Customer Billing System requires an active Contract Account to be present in order to process an enrollment with a Third Party Supplier. Changes to this process would be extensive, and would be dependent upon recognizing a future account activation. These practices are not currently in place or under consideration in any of the jurisdictions in which Delmarva Power's sister companies operate. If the ultimate determination is to adopt this change, Delmarva Power would need sufficient time to review, analyze, test and implement the appropriate changes to its billing system to accommodate these changes, and prior to incurring any of these costs, would seek to establish a regulatory asset to recover for the costs associated with this change in practice.

**D. Modify Delmarva Power's Practice of Requiring Customers Who Move to Revert To Standard Offer Service for at Least A Month before Returning to a Third Party Supplier**

Delmarva Power is opposed to any change to this practice for many of the same reasons articulated in Subsection C. above. In addition to extensive process changes to accomplish this change in practice, EDI changes/additions would be needed to support the transfer notification to the Third Party Supplier. This practice is also not currently in place or under consideration in any of the jurisdictions in which Delmarva Power's sister companies operate. If the ultimate determination is to adopt this change, Delmarva Power would need sufficient time to review, analyze, test and implement the appropriate changes to its billing system to accommodate these changes and prior to incurring any of these costs would seek to establish a regulatory asset to recover for the costs associated with this change in practice.

**E. Establish a Mechanism for Customers to Enroll with a Third Party Supplier without their Delmarva Power Account Number or Other Numerical Identifier**

The account number is the critical identifier of a customer account within the Solution One Customer Billing System. Without that specific information, Delmarva Power would not be able to correctly determine which account to activate for a Third Party Supplier. In addition, by being able to provide the account number, the Third Party Supplier is able to authenticate to a certain degree that the customer did indeed consent to the service request. Further, the account number serves as a way to insure the security of a customer's account information. Again, if the determination is made to implement this change, Delmarva Power would need sufficient time to review, analyze, test and implement the appropriate changes to its billing system to accommodate these changes and prior to incurring any costs would seek to establish a regulatory asset to recover for the costs associated with this change in practice.

**F. Continue the Review of Delmarva Power's Standard Offer Procurement Process and Consider Adopting Shorter Term purchases for Residential and Small Commercial Customers**

There is currently an open docket before the Commission, Docket No. 14-0283, titled "In the Matter of the Commission's Review of Delmarva Power's Retail Electricity Pricing and Potential Long Term Approaches to Secure Lower Priced Energy", that was opened August 19, 2014 for the purpose of reviewing Delmarva Power's current Standard Offer Service approach and whether such approach will lead to lower energy supply costs over the long term and considering other options to secure energy supply for Delmarva Power's customers. Commission Staff has retained a consultant to assist in this effort, London Economics International, LLC, who has already reviewed and prepared a report concerning alternative electricity procurement processes for the provision of Delmarva's Standard Offer Service. In addition, working group meetings have been held to gather comments from interested stakeholders concerning the current procurement process and potential alternatives. As a docket is already open and a process is already well underway to thoroughly review this issue, there is no need to duplicate efforts by reviewing these same issues in a different docket.

Consistent with the provisions of the Amended Procedural Schedule in this docket, Delmarva Power has specifically addressed Items a., b., c., d., and e. of Order No. 8845. To the extent that additional proposals/recommendations are offered by the other parties in this docket, Delmarva reserves

the right to provide specific comments on such proposals/recommendations or, in the alternative, to offer its own form of proposal/recommendation pertaining to the specific option(s) being proposed.

Respectfully Submitted,



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Pamela J. Scott  
Assistant General Counsel  
Delmarva Power & Light Company  
PO Box 6066  
Newark, DE 19714-6066  
(302) 429-2143  
[pjscott@pepcoholdings.com](mailto:pjscott@pepcoholdings.com)

Dated: March 30, 2016



BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF DELAWARE

IN THE MATTER OF THE REVIEW OF  
CUSTOMER CHOICE IN THE STATE  
OF DELAWARE  
(FILED DECEMBER 23, 2015)

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PSC DOCKET NO. 15-1693

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing proposals submitted by Delmarva Power & Light Company in the above referenced docket has been served this 30<sup>th</sup> day of March 2016 via electronic mail on those listed on the attached service list.



Pamela J. Scott  
Assistant General Counsel  
Delmarva Power & Light Company  
PO Box 6066  
Newark, DE 19714-6066  
(302) 429-2143  
[pjscott@pepcoholdings.com](mailto:pjscott@pepcoholdings.com)

Dated: March 30, 2016

**Docket Details:**

Docket #:15-1693      Utility Type:Electric  
 Filed By #:Robert Howatt      Field On Behalf Of:Delaware Public Service Commission  
 Filing Date:12/23/2015      Docket Type:Other  
 Case Manager:Malika Davis      Status:Assigned  
 Docket Caption:In The Matter Of The Review Of Customer Choice In The State Of Delaware

**Service Users List:**

<b>Last Name</b>	<b>First Name</b>	<b>Company</b>	<b>Address</b>	<b>City</b>	<b>State</b>	<b>Zip Code</b>	<b>Email</b>	<b>Phone</b>
Gellert	Ronald	Gellert Scali Busenkeli & Brown, LLC	913 N. Market Street, 10th Floor	Wilmington	DE	19801	rgellert@gsbblaw.com	302-425-5800
Greene	Brian	GreeneHurlocker, PLC	1807 Libbie Avenue, Ste 102	Richmond	VA	23226	bgreene@greenehurlocker.com	804-672-4542
Lawrence	Mark	Delaware Public Service Commission	861 Silver Lake Blvd, Cannon Bldg, Ste 100	Dover	DE	19904	Mark.Lawrence@state.de.us	(302) 736-7540
Bowman	Joshua	Delaware Public Service Commission	861 Silver Lake Blvd, Cannon Bldg, Ste 100	Dover	DE	19904	Joshua.Bowman@state.de.us	302-736-7520
Davis	Malika	Delaware Public Service Commission	861 Silver Lake Blvd, Cannon Bldg, Ste 100	Dover	DE	19904	Malika.Davis@state.de.us	(302) 736-7521
Donoghue, Esq.	Jo	Delaware Public Service Commission	820 North French Street, 6th Floor	Wilmington	DE	19801	Jo.Donoghue@state.de.us	302-577-8348
Geddes, Esq.	James	Delaware Public Service Commission	500 Delaware Avenue, Ste 800	Wilmington	DE	19899	jamesgeddes@mac.com	(302) 438-9500
Goodman	Todd	Delmarva Power	P.O. Box 6066	Newark	DE	19714	todd.goodman@pepcoholdinggs.com	302-429-8736
Hartigan	Matthew	Delaware Public Service Commission	861 Silver Lake Blvd, Cannon Bldg, Ste 100	Dover	DE	19904	Matthew.Hartigan@state.de.us	302-736-7532
Howatt	Robert	Delaware Public Service Commission	861 Silver Lake Blvd, Cannon Bldg, Ste 100	Dover	DE	19904	Robert.Howatt@state.de.us	302-736-7516
Loper	Toni	Delaware Public Service Commission	861 Silver Lake Blvd, Cannon Bldg, Ste 100	Dover	DE	19904	Toni.Loper@state.de.us	302-736-7534
Lyon	Ashley	Delaware Public Service Commission	861 Silver Lake Blvd, Cannon Bldg, Ste 100	Dover	DE	19904	ashley.lyon@state.de.us	302-736-7500
Mayrack	Brenda	Delaware Public Service Commission	861 Silver Lake Blvd, Cannon Bldg, Ste 100	Dover	DE	19904	Brenda.mayrack@state.de.us	302-736-7510
Bonar	David	Division Of The Public Advocate	29 South State Street	Dover	DE	19901	David.Bonar@state.de.us	307-577-5078
Iorii	Regina	Division Of The Public Advocate	820 N. French Street, 4th Floor	Wilmington	DE	19801	regina.iori@state.de.us	302-577-8159
Maucher	Andrea	Division Of The Public Advocate	29 South State Street	Dover	DE	19901	andrea.maucher@state.de.us	302-241-2545

Price	Ruth Ann	Division Of The Public Advocate	820 N. French Street, 4th Floor	Wilmington	DE	19801	ruth.price @state.d e.us	302-577- 5076
Scott	Pamela	Delmarva Power	500 North Wakefield Drive	Newark	DE	19702	pjscott@ pepcohol dings.co m	302-429- 3143